

DCMC ACME

MEMORANDUM FOR COMMANDER, DEFENSE CONTRACT MANAGEMENT  
DISTRICT XYZ

SUBJECT: Statement of Assurance Required by the Federal Managers' Financial  
Integrity Act (FMFIA) of 1982, QUALIFIED

As the Commander of Defense Contract Management Command (DCMC) ACME, I recognize the importance of management controls and have taken the necessary measures to ensure that evaluations of the system of mission, management, and administrative controls of DCMC ACME have been conducted in a conscientious and thorough manner. The results indicate that the system of management controls in effect during the fiscal year that ended September 30, 1999, taken as a whole, support my conclusion that I have reasonable assurance that management controls are in place and operating effectively, except for three material weaknesses described herein.

TAB A describes the basis of the evaluation and results of the system of mission, management, and administrative controls.

*[SAMPLE – provide as applicable]*

The evaluation disclosed one prior year weakness was closed, one prior year weakness remains open, and one current year weakness remains open, which are presented as follows:

TAB B-1 is a listing of corrected and uncorrected material weaknesses.

TAB B-2 provides a summary presentation of the two uncorrected material weaknesses regarding inadequate deployment of DCMC's Management Control and Assessment Process, and deficiencies in our management information system and Information Technology infrastructure.

TAB B-3, provides a summary presentation of a material weakness corrected this fiscal year regarding the redundant and excessive costs resulting from complying with the DoD requirement to track and log all outgoing and incoming communications.

*[signed]*

JANE DOE  
Colonel, USAF  
Commander

Attachments

1. Report of the Evaluation and Results
2. Areas of Concern

DESCRIPTION OF THE CONCEPT OF  
REASONABLE ASSURANCE  
AND HOW THE EVALUATION WAS CONDUCTED

TAB A

The concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve stated policy objectives. Statements of reasonable assurance are provided within certain limits:

- The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment.
- Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of mission, management, and administrative controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors.
- Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The evaluation of management controls encompassed operational, management, administrative, and financial responsibilities, as defined in various Department of Defense (DoD), Defense Logistics Agency (DLA), and Defense Contract Management Command (DCMC) policies, at all organizational activities under the cognizance of DCMC ACME. The evaluation was performed in accordance with DoD Instruction 5010.40, Management Control (MC) Procedures (dated August 28, 1996) and DLA Directive 5000.4, Contract Management, Chapter 11.5, Management Control and Assessment Process. The results indicate that the system of mission, management, administrative, and financial controls of DCMC ACME in effect during the fiscal year ending September 30, 1999, taken as a whole (with the three exceptions noted in TAB B-2 and TAB B-3), complies with the requirement to provide reasonable assurance that DoD and DCMC management control objectives were achieved.

*[SAMPLE]* It should be noted that at the start of the fiscal year, the management information system and supporting Information Technology infrastructure, and system of self-assessment could not provide this newly assigned Commander reasonable assurance that the above statements were true. In the ensuing months, great improvements have been made sufficient to support my assertions herein. Additionally, mission, management, and administrative functions of DCMC CAO-ABC were transferred under the leadership of

Sample (fictional) Annual Statement of Assurance

Attachment 1, TAB A, pages A-1 through A-2

DCMC ACME in September of 1998. The one open material weakness reported by DCMC CAO-ABC has been carried over and reported herein at TAB B-3 as having been corrected this fiscal year.

The basis for which DCMC ACME can provide reasonable assurance that objectives of management control have been accomplished is derived from the following Management Control and Assessment processes executed in Fiscal Year 1999 (FY99):

Risk Assessment (including internal Contract Administration Office (CAO) as well as contractor(s) systems and processes): (identify risk assessments performed)

Planning and Programming (performance plan, performance contract, budget formulation, and budget execution): (identify and briefly describe the performance plan, performance contract, business case(s), and method(s) used to track budget execution)

Management Reviews (mission, financial, and special item performance): (identify the frequency performed and corrective action process)

Unit Self-Assessment: (identify when last scheduled and accomplished)

Management Control Reviews: (identify the number performed; the number with deficiencies in mission, administrative, and/or mission support processes requiring corrective action, and the number for which corrective action is not on schedule)

Internal Operations Assessment: (if performed or corrective action continued into the current fiscal year, identify the number of areas requiring corrective action and status of the improvement plan; e.g., xx corrective action items planned, xx completed, xx open, original completion date: XXX 1999, and current completion date: XXX 2000)

DoD Inspector General Audit(s): (briefly identify findings and corrective actions)

GAO Audit(s): (briefly identify findings and corrective actions)

Defense Criminal Investigative Service Investigation(s) (District only): (identify number and, if known, general findings and corrective actions)

Other: (as applicable)

Following Pages as Applicable

TABs B-1, B-2, and B-3 will be included in Attachment 1 of your Statement only if reporting one or more Material Weaknesses.

Submitting Areas of Concern is optional, and if identified, will be included in your Statement as Attachment 2.

SAMPLE

**MATERIAL WEAKNESSES  
LISTING**

**TAB B-1**

1. Uncorrected Weakness Identified During the Period:

<u>Title</u>	<u>Targeted Correction Date</u>	<u>Page Number</u>
Inaccurate Management Information and Inadequate Information Technology Infrastructure Support	FY 2000	B-2-1

2. Uncorrected Weakness Identified During Prior Periods:

<u>Reported Correction Fiscal Year:</u>				
<u>Title</u>	<u>FY First Reported</u>	<u>Per Last Annual Statement</u>	<u>Per This Annual Statement</u>	<u>Page Number</u>
DCMC ACME's Inadequate Deployment of DCMC's Management Control and Assessment Process	FY 1998	FY 1999	FY 2000	B-2-5

3. Corrected Weakness Identified During All Periods:

<u>Title</u>	<u>Year First Reported</u>	<u>Page Number</u>
Redundant and Excessive Costs Resultant from DoD Requirement to Manually Log All Outgoing and Incoming Communications	FY 1995	B-3-1

## UNCORRECTED MATERIAL WEAKNESS A SUMMARY PRESENTATION

### TAB B-2

1. Inaccurate Management Information and Inadequate Information Technology Infrastructure Support. This summary provides the status of corrective milestone events planned by the Defense Contract Management Command (DCMC) ACME regarding deficiencies in its management information system and supporting automated infrastructure.

The management control weakness was identified by a Headquarters (HQ) DCMC Internal Operations Assessment (IOA) Team during a review conducted September 21-25, 1998. The IOA Team reported that DCMC ACME had not deployed a systematic process that could ensure accurate data was available to support management decisions. Additionally, DCMC ACME's Information and Technology (IT) infrastructure was fraught with deficiencies that impacted data integrity, and the effectiveness and quality of job performance of its employees executing mission processes, and administrative and management functions. Also, the IT infrastructure utilized by DCMC ACME was not fully Year 2000 (Y2K) compliant.

The IT infrastructure deficiencies adversely affected the ability of remote system users to either access or input data accurately, or at all. Frustrated with the problems, some employees manually faxed data to the process owner located at the main office to make the input (a duplicative effort full of possible transcribing errors), while several other employees simply stopped inputting and or maintaining required data. Additionally, hardware at one remote Local Area Network (LAN) and several computer workstations were not Y2K compliant, which could adversely impact the affected employees' connectivity. The training program was so poorly managed that training requirements could not be accurately determined, which adversely affected related management decisions and resulted in unknown instances of uncertified employees performing work. Data integrity audits of both performance measures (metric data) and labor management data had not been planned nor accomplished. Inaccuracies in the data adversely impacted management's ability to accurately determine mission performance and to make viable adjustments to assignments in labor resources and management emphasis.

2. Functional Category: Contract Administration

Pace of Corrective Action:

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Attachment 1, TAB B-2, pages B-2-1 through B-2-4

3. Year Identified: FY 1999 (review identifying deficiencies was completed at the end of FY 1998 subsequent to submittal of the FY 1998 Annual Statement of Assurance)
4. Original Target Correction Date: FY 2000
5. Targeted Correction Date in last year's report: Not applicable
6. Current Target Date: FY 2000
7. Reason for Change in Date: Not applicable
8. Component/Appropriation/Account Number: Defense Logistics Agency
9. Validation Process: HQ DCMC will conduct a follow-up Internal Operations Assessment to determine if corrective action is completed, and District XYZ will evaluate if the IT infrastructure improvements are sustainable.
10. Results Indicators: Quality and accuracy of management data will improve. The IT infrastructure will enable the workforce to perform their mission efficiently and effectively.
11. Source Identifying Weakness: HQ DCMC Internal Operations Assessment.
12. Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date</u>	<u>Milestones</u>
29 Sep 98	Appointment letter for the DCMC ACME Performance Improvement Officer (PIO), signed by Commander
14 Oct 98	DCMC ACME, Standard Operating Procedure (SOP) 99-04, Determination and Management of Training Requirements Process, approved by Commander
14 Oct 98	DCMC ACME, SOP 99-05, Management of DCMC ACME Management Information System Data, approved by Commander
15 Oct 98	DCMC ACME revised Management Control Review format (incorporating DCMC/District/Local metric and Performance Labor Accounting System data validations) approved by Commander

Sample (fictional) Annual Statement of Assurance  
Attachment 1, TAB B-2, pages B-2-1 through B-2-4

16 Nov 98	DCMC ACME Internal Operations Assessment (IOA) Improvement Plan submitted for approval
05 Jan 99	DCMC ACME IOA Improvement Plan approved by DCMC Commander
29 Jan 99	DCMC ACME data integrity audit and results analysis completed
12 Feb 99	Review of all Individual Development Plans, and identification and prioritization of training needs completed
15 Mar 99	DCMC ACME FY 2000 Performance Plan and budget (with corrected training and metric data inputs, and IT needs incorporated) submitted to District XYZ
22 Apr 99	Reorganize all GS-334 series Computer Specialists to be centrally managed by the DCMC ACME Computer Support Office (Union and District approval obtained)
20 May 99	DCMC ACME Executive Steering Committee completed detailed review of IOA Improvement Plan progress and adequacy

B. Planned Milestones (Next Fiscal Year)

<u>Date</u>	<u>Milestone</u>
Oct 99	Receive shipment of xx upgraded computer workstations and remote LAN equipment
Nov 99	Configure and install xx individual computer workstations and remote LAN equipment
Nov 99	Complete Y2K compliance test of entire IT system
Dec 99	Complete Y2K adjustments/upgrade of IT system

C. Planned Milestones (Beyond Next Fiscal Year) Not applicable

D. Correction Verification Milestone

<u>Date</u>	<u>Milestone</u>
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Sample (fictional) Annual Statement of Assurance  
Attachment 1, TAB B-2, pages B-2-1 through B-2-4

1<sup>st</sup> Qtr 99            HQ DCMC review to validate corrective action completed on IOA Improvement Plan

2<sup>nd</sup> Qtr 99            District XYZ review to validate IT corrective action is sustainable

13. Point of Contact:            John Smith, Chief, Management Support Group, DCMC  
ACME (000) 000-0000, DSN 000-0000

SAMPLE

## UNCORRECTED MATERIAL WEAKNESS A SUMMARY PRESENTATION

### TAB B-2

1. DCMC ACME's Inadequate Deployment of DCMC's Management Control and Assessment Process. This summary provides the status of corrective milestone events regarding the establishment of a self-assessment process that will ensure deficiencies pertaining to the proper execution of contract administration services (mission) processes, ancillary administrative processes, and management systems are identified and corrected.

The management control deficiencies were identified by a special internal review team, which was established by the Commander, DCMC ACME on June 1, 1998 for the purpose of reviewing the Management Control and Assessment Process (MCAP) functions. The deficiencies were reported in DCMC ACME's Fiscal Year (FY) 1998 Annual Statement of Assurance, dated July 31, 1998, as an uncorrected material weakness. A Headquarters (HQ) DCMC Internal Operations Assessment (IOA) Team observed the same deficiencies during a review conducted September 21-25, 1998. Both teams reported that DCMC ACME had failed to implement a self-assessment process that complied with policy stated in Defense Logistics Agency Directive (DLAD) 5000.4, Contract Management, chapter 11.5, Management Control and Assessment Process (MCAP). DCMC ACME had implemented an adequate monthly Mission Management Review process that identified processes that were, or were not, producing stated performance goals and objectives. However, the deficiencies pertaining to inaccurate management information and inadequate information technology infrastructure support impacted the outcome of the monthly reviews. The following MCAP deficiencies were identified:

**Risk Assessment** of mission processes was accomplished by the Management Control Program point-of-contact who could not justify the ratings applied to the Contractor Risk factor. The absence of comment by supervision and management to the draft Risk Assessment document indicated a lack of management commitment and involvement. Support/administrative processes were not listed on the document and had not been risk rated. Additionally, the Risk Assessment had not been reviewed annually for possible updating as required by DCMC policy.

The **Self-Assessment Schedule** indicated that low risk-rated processes were scheduled while high risk-rated processes had not. The Schedule's indicated completion date for Unit Self-Assessments (USAs) contradicted the documentation contained in the USA files. Additionally, changes to the schedule could not be explained, nor could the fact that two high risk-rated processes, included in last year's schedule and annotated as being

rescheduled for the next year, were excluded from the current schedule. Documentation indicated that the Management Control Program point-of-contact developed the schedule without input or even tacit approval from management.

**Management Control Review (MCR)** documentation format was inconsistently applied; also, documentation was so poor it was impossible to determine to what extent several processes had been reviewed, and what had been observed. Where deficiencies had been documented, documentation was insufficient to support that corrective action had occurred. There was not a tracking system in place to ensure corrective action was developed for and completed on identified deficiencies.

The **Unit Self-Assessment (USA)** process was accomplished inconsistently for the past three years. Assignment of the USA Coordinator and Category Champions varied often each year and during the course of the year as well. Areas for Improvement (AFIs) had been identified, but documentation did not support why some were included and/or excluded from the Performance Plan during the past three years. In fact, documentation did not support AFIs that had not been transitioned into the following year's USA as being corrected, or that some other determination had been made. An analysis of the AFIs had not been accomplished to determine whether conditions had improved or degraded since the prior analysis. Additionally, leadership's role in the USA and related follow-up was very limited.

The **Internal Customer System (ICS)** program had not been adequately implemented. The top two AFIs had been identified, selected, and included in the Performance Plan; however, the top two AFIs and others had not been incorporated into the USA process. Progress on closing out the corrective action plan for the top two AFIs had not occurred as a result of a lack of leadership involvement in the ICS.

2. Functional Category: Contract Administration

Pace of Corrective Action:

3. Year Identified: FY 1998

4. Original Target Correction Date: FY 1999

5. Targeted Correction Date in last year's report: FY 1999

6. Current Target Date: FY 2000

7. Reason for Change in Date: The IOA conducted subsequent to the original report interjected an additional validation step by HQ DCMC that could not be scheduled prior to the first quarter of FY 2000.

8. Component/Appropriation/Account Number: Defense Logistics Agency

9. Validation Process: DCMC HQ will conduct a follow-up IOA no later than the end of the first quarter of FY 2000 to verify DCMC ACME's corrective action plan has been accomplished and ensure corrective action is sustainable.

10. Results Indicators: Documentation will support that the Risk Assessment, Self-Assessment Schedule, USA, MCR, ICS, Mission Management Review, and Performance Plan processes are integrated and operating to policy requirements. Efficiency and effectiveness of mission accomplishment will improve over time.

11. Source Identifying Weakness: Special DCMC ACME internal review team and the Headquarters DCMC Internal Operations Assessment of DCMC ACME's mission and administrative processes and management system.

12. Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date</u>	<u>Milestones</u>
06 Jul 98	DCMC ACME, Standard Operating Procedure (SOP) 98-01, Executive Steering Committee Process, approved by Commander
15 Jul 98	DCMC ACME Continuous Improvement Program, approved by Commander
15 Jul 98	DCMC ACME SOP 98-02, Risk Assessment Process, approved by Commander
20 Jul 98	DCMC ACME SOP 98-03, Mission Management Review (MMR) Process, approved by Commander
10 Aug 98	DCMC ACME SOP 98-04, Management Control Review (MCR) Process, approved by Commander
25 Aug 98	DCMC ACME SOP 98-05, Unit Self-Assessment (USA) Process, approved by Commander

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10 Sep 98	DCMC ACME SOP 98-06, Internal Customer System (ICS) Process, approved by Commander
01 Oct 98	DCMC ACME revised FY 1999 Self-Assessment Schedule approved by Commander and submitted to District XYZ
15 Oct 98	DCMC ACME revised MCR format and corrective action tracking system approved by Commander
16 Nov 98	DCMC ACME Internal Operations Assessment (IOA) Improvement Plan submitted for approval
05 Jan 99	DCMC ACME IOA Improvement Plan approved by DCMC Commander
29 Jan 99	DCMC ACME FY 1999 USA and gap analysis completed
08 Feb 99	Initiate continuous USA and gap analysis process
15 Mar 99	DCMC ACME FY 2000 Performance Plan (with USA, MCR, and ICS inputs incorporated) submitted to District XYZ
20 May 99	DCMC ACME Executive Steering Committee detailed review of IOA Improvement Plan progress and adequacy

B. Planned Milestones (Next Fiscal Year)

<u>Date</u>	<u>Milestone</u>
Sep 99	Reevaluate Risk Assessment and complete FY 2000 Self-Assessment Schedule

C. Planned Milestones (Beyond Next Fiscal Year) Not applicable

D. Correction Verification Milestone

<u>Date</u>	<u>Milestone</u>
1 <sup>st</sup> Qtr 99	HQ DCMC review to validate corrective action completed on IOA Improvement Plan is sustainable

13. Point of Contact: Jill Jones, Chief, Technical Assessment Group, DCMC ACME (000)  
000-0000, DSN 000-0000

SAMPLE

## CORRECTED MATERIAL WEAKNESS A SUMMARY PRESENTATION

### TAB B-3

1. Redundant and Excessive Costs Resultant from DoD Requirement to Manually Log All Outgoing and Incoming Communications. This summary provides the status of corrective milestone events by the Department of Defense (DoD) to rescind outdated policy or to provide written relief from compliance. DoD Regulation 1234.56, Extraordinarily Wasteful Control of Outgoing and Incoming Defense Communications, dated June 11, 1956, requires documentation of the authorization, content, duration, originator, and receiver of all forms of communications originating within or received by the DoD. The policy explicitly prescribes the format of logs to be manually maintained for written, telephonic, radio, or other electronic forms of communication originating from or received by all DoD owned, leased, or rented facilities, land-based vehicles, nautical vessels, and air-borne craft. The policy is written such that communications originating from a headquarters element within a DoD component and directed to a field element of the very same DoD component must be documented when sent out and then documented when received.

Subject policy was written at a time when the nuclear threat from and covert surveillance by the Soviet Block was great. That threat has greatly diminished, and modern technology can now track and log all forms of outgoing electronic communications with greater accuracy and at minimal cost versus manual logs. This office has determined that each employee averages xx percent of their time maintaining a log of their outgoing communications. Compliance to this policy therefor means employee costs (including direct wage and indirect) approaches \$x.x million in this organization of xxx employees alone. That figure is based on xx percent of the current average labor cost of \$xx,xxx per year, per employee in DCMC. The DoD Inspector General and other DoD review elements continue to vigorously review to verify compliance to this policy.

Continued compliance in this climate of scarce resources and increasing workload means increasing inefficiencies and ineffectiveness meeting mission goals. Non-compliance means individuals risk having their civil or military careers terminated and commanders severely reprimanded. Appeals to get relief from the policy, made before 1995 to DoD, have not rectified the situation. Adherence to the policy remains compulsory.

2. Functional Category: Contract Administration

Pace of Corrective Action:

3. Year Identified: FY 1995
4. Original Target Correction Date: FY 1996
5. Targeted Correction Date in last year's report: unknown, dependent on action by the DoD
6. Current Target Date: FY 1999
7. Reason for Change in Date: DoD policy rescinded November 30, 1998
8. Component/Appropriation/Account Number: Defense Logistics Agency
9. Validation Process: DCMC CAO-ABC's validation will be accomplished during Management Control Reviews.
10. Results Indicators: Complaints from employees regarding compliance to outdated policy will cease. Efficiency and effectiveness of mission accomplishment will improve.
11. Source Identifying Weakness: DCMC CAO-ABC's self-assessment results, Management Control Reviews and Internal Customer System survey.
12. Major Milestones in Corrective Action:

A. Completed Milestones:

<u>Date</u>	<u>Milestones</u>
15 Jun 93	Letter sent to HQ DCMC regarding relief from policy
31 Jan 94	Letter sent to HQ DLA regarding relief from policy
15 Aug 94	Letter sent to DoD regarding relief from policy
12 Nov 94	Begin DoD-IG Audit XYZ987654321, Control of DoD Communications
08 Jun 95	Final report issued regarding DoD-IG Audit XYZ987654321, Control of DoD Communications. DCMC CAO-ABC found non-compliant
01 Aug 95	DCMC CAO-ABC corrective action plan to implement policy agreed to by DoD-IG and HQ DCMC



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30 Sep 95	DCMC CAO-ABC documented expense to comply with policy estimated at \$x.x million
06 Dec 95	Completed corrective action validated by District review team
30 Sep 96	DCMC CAO-ABC documented expense to comply with policy estimated at \$x.x million
30 Sep 97	DCMC CAO-ABC documented expense to comply with policy estimated at \$x.x million
30 Sep 98	DCMC CAO-ABC documented expense to comply with policy estimated to be \$x.x million
30 Sep 99	DCMC ACME document expense to comply with policy, projected to be \$xx.xx million
30 Nov 99	DoD rescinded policy (re: OSDX-XYZ Memorandum dated November 30, 1998, subject: DoD Regulation 1234.56, Extraordinarily Wasteful Control of Outgoing and Incoming Defense Communications, dated June 11, 1956 – RESCINDED)

B. Planned Milestones (Next Fiscal Year) Not applicable

C. Planned Milestones (Beyond Next Fiscal Year) Not applicable

D. Correction Verification Milestone

<u>Date</u>	<u>Milestone</u>
15 Jan 99	DCMC ACME completed MCR to ensure actions required by rescinded policy were no longer being performed.

13. Point of Contact: John Smith, Chief, Management Support Group, DCMC  
ACME (000) 000-0000, DSN 000-0000

DCMC ACME  
Areas of Concern

Area(s) of Concern Requiring Internal Attention Only:

- ? ABCDEFG was identified as a concern in the FY98 Annual Statement of Assurance (ASA), and pertains to...
- ? HIJKLMN was identified during FY99 as the situation with...

Area(s) of Concern Requiring District/HQ Attention:

- ? OPQRSTU was identified as a concern in the FY98 Annual Statement of Assurance and continues to...
- ? VWXYZA was identified during FY99 as the decision to...

SAMPLE